

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-03 INR-07 IO-10 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 XMB-02

SAM-01 DODE-00 PM-03 H-02 L-02 NSC-05 PA-01 PRS-01

SS-15 USIA-06 STR-04 /116 W
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R 161843Z MAY 75
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 9502
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: FRENCH RETURN TO EC MONETARY "SNAKE"

REF: PARIS 11789

1. SUMMARY. BASIC MOTIVATION UNDERLYING FRENCH
DECISION TO RETURN TO JOINT EC CURRENCY FLOAT (THE
"SNAKE") WAS POLITICAL -- TO MARK FRENCH COMMITMENT
TO CONSTRUCTION OF EUROPE. IN REACHING DECISION,
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GISCARD ALMOST CERTAINLY OVERRODE ADVICE OF HIS

FINANCIAL TECHNICIANS, WHO FAVORED RETAINING LATITUDE AFFORDED BY SEPARATE FLOAT OF FRANC. WHILE FRENCH WILL TRY TO PERSUADE OTHER PARTICIPANTS TO AGREE TO SOME MODIFICATIONS IN "SNAKE" MECHANISM, THEY PROBABLY WILL NOT MAKE AGREEMENT THEREON CONDITION TO THEIR RE-ENTRY. THEIR MAJOR OBJECTIVE APPEARS TO BE GETTING ARRANGEMENT THAT WOULD HELP TO DAMPEN TENDENCY OF "SNAKE" CURRENCIES TO APPRECIATE AGAINST DOLLAR. ON DOMESTIC SIDE, DECISION PROBABLY PORTENDS SOME SLOWDOWN IN PACE OF FRENCH ECONOMIC RECOVERY. END SUMMARY.

2. OUR DISCUSSIONS WITH FINANCE MINISTRY AND BANK OF FRANCE OFFICIALS BOTH BEFORE AND FOLLOWING PRESIDENT GISCARD D'ESTAING'S ANNOUNCEMENT ON MAY 9 OF FRENCH DECISION TO RETURN TO JOINT EC CURRENCY FLOAT (THE "SNAKE") LEAD US TO CONCLUSION THAT BASIC MOTIVATION UNDERLYING THIS DECISION WAS POLITICAL -- VIZ., TO MARK FRENCH COMMITMENT TO CONSTRUCTION OF EUROPE AND SPECIFICALLY TO GOAL OF EUROPEAN ECONOMIC AND MONETARY UNION. VIRTUALLY ALL OF THE FINANCIAL OFFICIALS WITH WHOM WE HAVE TALKED -- INCLUDING NOTABLY BANK OF FRANCE GOVERNOR CLAPPIER AND TREASURY DIRECTOR LAROSIERE -- HOLD VIEW THAT GIVEN UNCERTAINTIES HANGING OVER FRENCH ECONOMIC SITUATION, IT WOULD HAVE BEEN PREFERABLE SIMPLY TO MAINTAIN DE FACTO SPREAD BETWEEN FRANC AND "SNAKE" CURRENCIES AT NOT MORE THAN 2.25 PERCENT WITHOUT FORMALLY REENTERING JOINT FLOAT. CITING REASONS WHICH LED TO FRENCH DEPARTURE FROM "SNAKE" IN JANUARY 1974, THEY UNDERLINE THAT CONTINUATION OF INDIVIDUAL FLOAT WOULD HAVE PRESERVED POSSIBILITY FOR FRENCH MONETARY AUTHORITIES TO UTILIZE EXCHANGE RATE AS KIND OF SHOCK ABSORBER AGAINST ADVERSE DEVELOPMENTS IN FRENCH ECONOMIC AND FINANCIAL SITUATION' SHOULD THESE MATERIALIZE. ON THE OTHER HAND, THE THREE OFFICIALS WITH WHOM WE SPOKE PRIOR TO DECISION ALL STRESSED THAT FRENCH GOVERNMENT MIGHT, FOR WHAT IT CONSIDERED PARAMOUNT POLITICAL REASONS, DECIDE ON A RETURN TO THE "SNAKE." THUS, GISCARD ALMOST CERTAINLY OVERRODE ADVICE OF HIS FINANCIAL TECHNICIANS TO ANNOUNCE HIS DECISION ON THE SYMBOLIC DATE OF 25TH LIMITED OFFICIAL USE

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ANNIVERSARY OF SCHUMAN PLAN.

3. IN HIS MAY 9 STATEMENT, GISCARD SAID DETAILS OF REENTRY REMAINED TO BE FIXED. FINANCE MINISTRY OFFICIALS CANDIDLY ADMIT TO BEING UNCERTAIN ABOUT EXACTLY WHAT HE HAD IN MIND. HOWEVER, THEY PRESUME HE HAD REFERENCE TO SUGGESTIONS MADE LAST SEPTEMBER BY FINANCE MINISTER FOURCADE TO HIS EC COLLEAGUES FOR

CERTAIN MODIFICATIONS IN THE "SNAKE" MECHANISM (SEE EC BRUSSELS 7122 AND EC BRUSSELS 7191, BOTH OF 1974). THEY EXPECT FOURCADE TO REVIVE THESE IDEAS DURING MAY 20 MEETING OF EC FINANCE MINISTERS. PREVAILING OPINION IS, HOWEVER, THAT FRANCE WILL NOT MAKE COMMUNITY ACCEPTANCE OF MODIFICATIONS A CONDITION PRECEDENT TO FRENCH RETURN TO THE JOINT FLOAT. RATHER, IN FORMALLY SIGNIFYING ITS ADHERENCE, FRENCH GOVERNMENT WOULD EXPRESS STRONG HOPE THAT OTHER PARTICIPANTS WOULD BE WILLING TO EXAMINE ITS IDEAS CAREFULLY IN THE PERIOD AHEAD. PROBABLY FRANCE WOULD FORMALLY ADHERE TO "SNAKE" ARRANGEMENT SHORTLY AFTER MAY 20 MEETING.

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R 161843Z MAY 75

FM AMEMBASSY PARIS

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4. AMONG FOURCADE PROPOSALS, THE ONE TO WHICH FRENCH ATTACH GREATEST IMPORTANCE IS ACHIEVING WHAT THEY NOW DESCRIBE AS "A MORE EQUITABLE SHARING OF RESPONSIBILITY FOR INTERVENTION" BETWEEN WEAK AND STRONG CURRENCY COUNTRIES WITHIN "SNAKE." THEIR CRITIQUE OF PRESENT INTERVENTION RULES PROCEEDS FROM THEIR OWN EXPERIENCE IN "SNAKE" FROM FALL OF 1973 UNTIL THEIR WITHDRAWAL THEREFROM IN JANUARY 1974. THEY FEEL THAT THEIR SIZABLE RESERVE LOSSES IN THAT PERIOD, RESULTING FROM LIMITED OFFICIAL USE

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THEIR OBLIGATION TO INTERVENE SO AS TO KEEP FRANC WITHIN 2.25 PERCENT OF DEUTSCHE-MARK, WOULD HAVE BEEN CONSIDERABLY LESS IF GERMANS HAD NOT BEEN INTERVENING AT SAME TIME ON CONSIDERABLE SCALE TO ARREST DEPRECIATION OF DEUTSCHEMARK AGAINST DOLLAR. IT WAS AGAINST THIS BACKGROUND THAT THEY DEVELOPED THEIR PROPOSAL FOR "SNAKE" COUNTRIES TO SET TARGET RATE FOR "SNAKE" CURRENCIES AGAINST DOLLAR. THEN, ALL PARTICIPANTS WOULD HAVE SOME RESPONSIBILITY TO INTERVENE TO KEEP "SNAKE" WITHIN TARGET ZONE, AND INTERVENTION RESPONSIBILITY WOULD NOT FALL SOLELY ON WEAKEST CURRENCY COUNTRY. THIS WOULD AFFECT PARTICULARLY THE STRONGEST CURRENCY COUNTRY, WHICH WOULD TAKE IN DOLLARS WHEN TENDENCY OF "SNAKE" WAS TO MOVE ABOVE TARGET ZONE (WHICH IS, OF COURSE, VERY LIKELY POSSIBILITY IN PERIOD AHEAD). IN THAT MODEL, THERE WOULD BE COMMITMENT REDUCTION IN OBLIGATION OF WEAKEST CURRENCY COUNTRY TO SPEND ITS RESERVES TO MAINTAIN ITS CURRENCY WITHIN 2.25 PERCENT OF THE LEADER. THIS WOULD, OF COURSE, TEND TO HOLD DOWN THE DOLLAR VALUE OF "SNAKE" CURRENCIES IN GENERAL AND-- A FAVORITE DESIDERATUM OF THE FRENCH -- THE FRANC IN PARTICULAR. WE ASKED IF FRENCH THOUGHT GERMANS WOULD BE ANY MORE WILLING TO SUBSCRIBE TO THIS ARRANGEMENT NOW THAN THEY HAD BEEN IN PAST. OUR INTERLOCUTORS EXPRESSED VIEW THAT PROSPECT OF ASSOCIATION OF SWISS FRANC WITH "SNAKE" SHOULD MAKE GERMANS MORE AMENABLE TO A MECHANISM DESIGNED TO FORESTALL "EXCESSIVE" APPRECIATION OF EXCHANGE VALUE OF "SNAKE" CURRENCIES.

5. FRENCH WILL PROBABLY ALSO ASK "SNAKE" PARTICIPANTS TO CONSIDER THEIR IDEA OF REPLACING 2.25 PERCENT FIXED, UNIFORM MARGIN BY ARRANGEMENT WHEREBY MARGINS COULD

VARY FROM CURRENCY TO CURRENCY OR OVER TIME, AND WOULD, IN ANY CASE, NOT BE MADE PUBLIC. HOWEVER, THEY SEEM LESS WEDDED TO THIS MODIFICATION THAN TO THEIR DESIGN FOR "MORE EQUITABLE SHARING" OF INTERVENTION RESPONSIBILITIES.

6. WE BELIEVE THAT ON DOMESTIC FRONT, GISCARD'S DECISION TO REENTER "SNAKE" WILL HAVE CONSEQUENCE OF LIMITED OFFICIAL USE

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SLOWING DOWN FRENCH ECONOMIC RECOVERY. FRENCH FINANCIAL TECHNICIANS EMPHASIZED TO US THAT ESCAPE HATCH OF DOWNWARD FRANC FLOAT AGAINST OTHER "SNAKE" CURRENCIES IS NO LONGER AVAILABLE TO FRENCH FINANCIAL AUTHORITIES, SHOULD FRENCH ECONOMY, FOR ANY REASONS, HEAT UP AT APPRECIABLY FASTER PACE THAN THE NEIGHBORING ECONOMIES. INDEED, FINANCE MINISTRY OFFICIAL RESPONSIBLE FOR INTERNAL MONETARY MATTERS HAS TOLD US THAT MINISTRY TECHNICIANS HAVE ALREADY CONCLUDED FURTHER OFFICIAL PRESSURE TO ENCOURAGE CONTINUED DOWNWARD MOVEMENT OF FRENCH INTEREST RATES (WHICH THEY HAD FAVORED UNTIL GISCARD'S MAY 9 SPEECH) WOULD NOT BE APPROPRIATE. THEY ARE NOT YET SURE FINANCE MINISTER FOURCADE SHARES THEIR JUDGMENT IN THIS RESPECT. HOWEVER, THEY POINT OUT THAT DESPITE PROGRESS REALIZED BY FRANCE IN MODERATING RATE OF INFLATION, PRICES HERE ARE STILL RISING MUCH MORE RAPIDLY THAN IN GERMANY. THEY ARE COUNTING ON INDICATORS LIKE THAT TO PROVIDE STIMULUS FOR FRENCH GOVERNMENT TO HOLD RIGOROUSLY TO ITS STABILIZATION EFFORT.

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